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6 June 1980

MEMORANDUM

SUBJECT: Overview of Spain

1. Prime Minister Suarez is at the lowest ebb of his political career following a late May policy debate in Parliament. A Socialist-sponsored motion of no confidence was defeated, but the voting indicated that support for Suarez's minority government has eroded. Opinion polls, moreover, show that, for the first time since he came to office in 1977, more people disapprove of his leadership than approve. Suarez has been caught between two fires as the leftist opposition charges his government with lack of policy direction and rightward drift, while dissident leaders within his own Union of the Democratic Center complain that they have been cut out of the decision-making process. The Prime Minister will face tough challenges from dissidents at his party's fall congress, and may have to give them more say in running both the party and the government in order to serve out his mandate through 1983. His weakened condition will make it even more difficult to cope with the formidable challenges facing his government: Basque terrorism, the devolution of power to the regions, and a worsening economic situation.

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2. Economic problems are putting Prime Minister Suarez under increasing political pressure to abandon his anti-inflationary stance and adopt stimulative policies. GNP growth is expected to slow to about half the 1979 rate of 2 percent, inflation will probably reach 18-19 percent, and unemployment, which already averaged 9 percent in 1979, is expected to top 12 percent this year. These problems could undermine popular support for EC membership, now expected for 1984, and heighten tensions in the highly industrialized Basque provinces. Only on the foreign financial side is Spain in fairly good shape. Although oil costs (possibly \$12 billion this year compared with \$7 billion in 1979) are pushing the current account into deficit, foreign investment and Spain's \$13 billion in reserves will easily cover the shortfall.

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This memorandum, requested by the Presidential Briefing Coordinator, was prepared by [] the Western Europe Division of the Office of Political Analysis and [] the Industrial Nations Division of the Office of Economic Research. The paper was coordinated with the [] Directorate of Operations. Research was completed on 5 June 1980. Questions and comments may be addressed to the Chief of the Iberia Aegean Branch of the Western Europe Division, [] .

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3. Outstanding bilateral economic issues include: (a) Spanish concern over a \$1.8 billion annual trade deficit with the United States, (b) Spanish desire for larger fishing quotas in US waters, and (c) US complaints that Spanish measures to help olive growers harm US soybean oil exports in violation of GATT rules. [redacted]

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4. In foreign affairs, the Suarez government continues its efforts to carve out a larger role for Spain on the world stage. Both the government and the opposition see Spain as an integral member of Europe and the Western community; they also believe that Spain should act as a bridge between the West and those regions of the Third World where Spain claims a special historic relationship--most notably Latin America and the Arab world. The Spanish government is currently negotiating for entry into the European Community but is withholding a commitment on NATO membership--partly because the left is adamantly opposed, partly because there is little political mileage to be gained from it, and partly because of lingering suspicions that joining the Alliance would foreclose some of its foreign policy options in the Third World. Spanish officials now seem to be leaning instead towards a network of bilateral security pacts with other West European states or some vague concept of a European defense system--both of which would be acceptable to the left. In the renegotiation of the bilateral treaty with the US--which expires in the fall of 1981--Madrid will demand a greater quid for more restricted use of Spanish bases, but would be prepared to expand US access in return for a mutual security commitment. [redacted]

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